

Message Text

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ACTION AF-18

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E.O. 11652: N/A

TAGS: BEXP, ETRN, GB, US

SUBJ: TRANSGABON RAILROAD: MORRISON-KNUDSEN PROPOSAL

USDOC FOR STEPHEN CONGER

REF: LIBREVILLE 0308 (NOTAL)

1. MCKEE AND TWO ASSOCIATES FROM MORRISON-KNUDSEN WERE RECEIVED WITH AMBASSADOR BY PRESIDENT BONGO MARCH 23. ALSO PRESENT WAS MINISTER OF STATE RAWIRI. AFTER BRIEF STATEMENT BY M-K REP OUTLINING COMPANY'S PROPOSAL FOR SECOND LEG OF TRANSGABON RAILROAD (BOOUE-FRANCEVILLE), BONGO WENT STRAIGHT TO HEART OF MATTER ASKING FOR TOTAL COST OF PROPOSAL AND TERMS OF FINANCING. WHEN GIVEN FIGURES, BONGO WAS VISIBLY SHAKEN DISAPPOINTED AND UPSET. HE STATED FLATLY COST MUCH TOO HIGH, ROUGHLY TWICE OFFER HE HAD RECEIVED FROM JAPAN AND THAT GABON WOULD BE FORCED TO EXPLORE OTHER ALTERNATIVES. M-K REPS ARGUED THAT THEIR ESTIMATES REASONABLE AND LEFT COPIES OF THEIR PROPOSAL. RAWIRI STATED PROPOSAL WOULD BE CAREFULLY STUDIED AFTER WHICH GOG WOULD COMMUNICATE WITH M-K.

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2. M-K PROPOSAL (OF WHICH EMBASSY GIVEN COPY) IS A COST PLUS FIXED FEE PROPOSAL. TOTAL ESTIMATED COST IS DOLS 239 MILLION PLUS FINANCING ROUGHLY ESTIMATED AT DOLS 115 MILLION IN INTEREST OVER REIMBURSEMENT PERIOD. ESTIMATED COST BREAKS DOWN AS FOLLOWS: DOLS 130 MILLION IN DOLLARS, DOLS 60 MILLION IN LOCAL COSTS, PLUS 10 PERCENT FOR CONTINGENCIES AND 15 PERCENT FOR ANTICIPATED ESCALATION IN PRICES. FINANCING, OFFERED BY COMMERCE UNION BANK, IS BROKEN DOWN INTO SEPARATE SUCCESSIVE LOANS WHICH RESULT IN OVERALL REPAYMENT SCHEDULE OF SEVENTEEN YEARS WITH GRACE PERIOD OF SEVEN AND ONE-HALF YEARS. RATE OF INTEREST ONE AND SEVEN-EIGHTHS ABOVE PRIME RATE. PROPOSED FINANCING COVERS ONLY U.S. COSTS AND ASSUMES GOG WILL ASSUME LOCAL COSTS. EXIM PARTICIPATION NOT INCLUDED AND WOULD OF COURSE IMPROVE FINANCIAL TERMS.

3. COMMENT: SEEMED APPARENT TO AMBASSADOR THAT BONGO GENUINELY TAKEN ABACK BY COST OF M-K PROPOSAL AND HIS FIRST REACTION WAS THAT HE WOULD AS RESULT BE FORCED TO RECONSIDER HIS ORIGINAL PLAN TO AWARD CONTRACT TO M-K. HE MURMURED TO RAWIRI QUOTE IL FAUDRA MAINTENANT ENVISAGER DE CHANGER LE FUSIL D'EPAULE. END QUOTE. EMBASSY HAS NOT, OF COURSE, SEEN JAPANESE PROPOSAL (WHICH BONGO STATED AMOUNTED TO DOLS 118 MILLION). JAPANESE AMBASSADOR HAD EARLIER TOLD AMERICAN AMBASSADOR THAT JAPANESE OFFER OF SOFT LOAN OF DOLS 10 MILLION FOR FIRST LEG OF RAILROAD NOT YET SIGNED AND CONTINGENT ON JAPANESE OBTAINING CERTAIN (UNSPECIFIED) CONTRACTS. POSSIBLE THAT JAPANESE OFFER FOR CONSTRUCTION OF SECOND LEG INVOLVES SOME GOJ SUBSIDIES. IN ANY CASE, M-K PROPOSAL HAS NOT YET BEEN REJECTED BUT OUTLOOK DOES NOT LOOK VERY PROMISING.
MCKESSON

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